

# APPENDIX H

## WAVERLEY BOROUGH COUNCIL

### EXECUTIVE - 2 FEBRUARY 2010

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**Title:**

**TREASURY MANAGEMENT –  
PERFORMANCE MEASUREMENT 2009/2010**

[Portfolio Holder for Finance: Cllr Mike Band]  
[Wards Affected: N/A]

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**Summary and purpose:**

The purpose of this report is to advise Members of Waverley's investment performance at the end of the third quarter of 2009/2010.

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**How this report relates to the Council's Corporate Priorities:**

The management of Waverley's investments is a key function that helps ensure sufficient funds are available to provide services and pay the Council's commitments.

**Equality and Diversity Implications:**

There are no implications arising from this report.

**Resource and legal Implications:**

There are no direct resource implications and any financial areas are covered in the report.

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**Introduction and Background**

1. Waverley's Treasury Management Policy accords with the existing Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management in the Public Services. A new code has recently been issued and is the subject of a separate report on this agenda.
2. Current policy requires officers to report on investment performance and transactions to a meeting of the Executive twice a year, however, in the light of the current financial markets quarterly reports are considered more appropriate. This report covers the period 1<sup>st</sup> April 2009 to 31st December 2009.
3. The Audit Commission report "Risk and Return" identified that regular engagement of elected members in the Treasury Management function is good practice. That report was prompted by the problems experienced by the Icelandic Banks.

## Rate of return %

4. The rate of return on the Council's investments for the period 1<sup>st</sup> April 2009 to 31st December 2009 was 2.11%. At that time the rate offered for a 3 month term by counterparties on Waverley's lending list varied from around 0.50% to 1%. This range has been fairly constant during the quarter.
5. For comparative purposes in this report the LIBOR has been used. This has been calculated at an average of 0.58% for the quarter and in the region of 0.50% for the year. In future it may be more appropriate to compare Waverley's rate of return with the rates offered by the counterparties on Waverley's preferred list. This will be proposed when the Executive consider its 2010/11 performance targets at the next meeting.
6. The Local Performance Indicator LI8, which relates to investment performance, is shown below and indicates that performance continues to compare favourably compared to the agreed target. However, the rate of return is likely to continue to deteriorate over the rest of the year as new investments are made in a challenging market place.

Full Description of PI	2008/2009 Target	2008/2009 Actual	2009/10 Target	2009/10 Actual Q3
Average rate of return on the Council's Investments compared with the average seven-day LIBOR rate (London Inter-Bank Ordinary Rate)	0.05% above the LIBID rate	0.96% above the LIBID rate	0.125% above the LIBOR rate	1.61% above the average LIBOR rate

## Yield

7. Waverley set a budget of £600,000 for investment income in 2009/10 in anticipation of low interest rates continuing over both the short and medium term. This compares with the 2008/9 budget of £1,700,000. Officers now believe that it is likely that investment income of around £655,000 is achievable in 2009/10 and it may be possible to exceed that figure marginally if there are no further cuts in the base rate during the year or any need to restrict our counterparty list further.
8. The income budget is affected not only by the prevailing interest rates and the preferred counterparty but also by the amount Waverley is able to invest. Typically, over previous months in 2009 Waverley in 2009 had significantly less invested than in previous years. The average daily investment for the year to date at 31st December 2009 was £33,300,000. During 2008/09 the average daily investment was just over £36,500,000. However, the 31/12/09 position is in excess of the previous quarter and has contributed to the likely improvement in investment income from the budget position. The Council's Leisure Capital Programme will use further resources in the near future which otherwise may have been available for investment.

## **Security of investment**

9. Waverley's policy and practice is to put security of investment at a higher priority than rate of return/yield. The Executive approved revisions to the policy in February 2009 to ensure continued security of investment. Waverley's day to day practice continues to be refined, within the boundaries of the approved policy, in response to challenging market conditions. The cornerstones of current policy/practice are:
- to restrict lending to only those institutions which fit the Council's policy in terms of financial standing, credit ratings etc;
  - generally to restrict lending to the short-term (typically 3 months or less) or to cover precept dates for the remainder of the year, except where the Deputy Chief Executive or Head of Finance and Performance agree to an investment up to one year if interest rates are favorable, and within Waverley's criteria,
  - to fix financial limits to each institution depending the quality of their financial ratings.
- The tightening restrictions operated by Waverley do inevitably have a negative impact on the rates of return achievable, but are necessary to maintain sufficient security on investment. Currently the lack of financial institutions which meet Waverley's counterparty criteria is the most significant factor in day to day Treasury Management. To date Waverley has not invested with the Debt Management Office (DMO, part of the Government's Public Works Loans Board) where rates are significantly below market rates and generally less than base rate. It estimated that based on current rates by opting for market investments rather than investing with the DMO, the Council will double the amount of interest income for the Council
10. As at 31<sup>st</sup> December 2009, of the 18 external investments held by Waverley, 16 were with specified investors i.e. only counterparties with a formal credit rating of A or above. As at 30<sup>th</sup> June 2008 (just before the start of the credit crunch) of the 23 external investments held by Waverley, 16 were with non-specified institutions. This demonstrates the changing practice in respect of preferred counterparties.
11. As at 31<sup>st</sup> December 2009, Waverley had 2 investments with a rating below A, both with the Norwich and Peterborough BS. However, when these investments were taken out the rating was above A. These investments are due to mature on 10<sup>th</sup> and 15<sup>th</sup> March 2010.
12. On 31<sup>st</sup> December 2009 Waverley had £30,150,000 invested externally. Of the 18 external investments on 31<sup>st</sup> December 2009 none had maturity periods exceeding 1 year but 6 had a maturity period exceeding 6 months. 10 of the outstanding investments, representing £20,000,000, mature within 3 months.

## **General cash management**

13. Waverley's primary objective is to manage daily cash balances to meet cash flow commitments and to minimise investment risk.

14. During the third quarter of 2009/10 the average daily balance left in Waverley's general bank accounts at the close of business was less than £28,000 – a reduction over the first 2 quarters, as anticipated.
15. Waverley has not had to borrow to meet expenditure commitments in this quarter.

### **Recommendation**

It is recommended that the quarter 3 Treasury Management Performance for 2009/10 be noted and the approach to managing investment activity be endorsed.

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### **Background Papers:**

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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